
U.S. Senate
Republican Policy
Committee

Don Nickles, Chairman
Doug Badger, Staff Director



U.S. House
Republican
Conference

John Boehner, Chairman
Barry Jackson, Executive Director

November 16, 1995

Balanced Budget Act Provides Medical Savings Accounts for the Working Population

The Balanced Budget Act allows Medical Savings Accounts (MSAs) to be afforded equal tax treatment with other types of employer-provided health insurance — that is, it ends the taxation on MSA deposits. Also, those who are self-employed may now contribute to a MSA (with certain restrictions) and receive a 100-percent deduction for their contribution.

An estimated one million taxpayers will take advantage of this program, which encourages cost-cutting competition in health care, while providing patients with new options.

MSA's: Just What the Patient Ordered

- **Rollover of Funds:** The money in the account is the individual's or family's money, and they have complete control over it. The account is portable, and accessible for any medical expense defined in the tax code. The funds in the MSA roll over from year to year for future medical expenses or for retirement needs. The interest earned in the MSA is *not subject to taxation*.
- **Long-Term Care:** The MSA provision allows individuals and families to pay for long-term care premiums from the account.
- **Appeal to Low-Income Wage Earners:** Under conventional insurance plans, employees must meet their \$250 or \$500 deductible with after-tax dollars before they could access their insurance. A single mother earning \$14,000 or \$15,000 a year may find it difficult to meet the deductible when rent, transportation, taxes, grocery bills and other needs for her children are pressing. An MSA allows low-income earners **first-dollar coverage**, permitting them to get medical care when they or their children need it.
- **Enhanced Portability:** Should an employee change jobs or be laid off or fired, the money in his MSA goes with him. This feature of MSAs allows the individual to continue to pay for his health care premium until he finds another job or is accepted into his new employer's health care plan.